

**South Carolina Electric & Gas Company**  
***Annual Review of Base Rates for Fuel Costs***

***Docket No. 2003-2-E***

***Direct Testimony***  
***Jacqueline R. Cherry***  
***Audit Department***

***Public Service Commission of South Carolina***

**TESTIMONY OF JACQUELINE R. CHERRY**

**FOR**

**THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA**

**DOCKET NO. 2003-2-E**

**IN RE: SOUTH CAROLINA ELECTRIC & GAS COMPANY**

**Q. PLEASE STATE FOR THE RECORD YOUR NAME, BUSINESS ADDRESS AND POSITION WITH THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA?**

**A.** My name is Jacqueline R. Cherry. My business address is 101 Executive Center Drive, Columbia, South Carolina. I am employed by the Public Service Commission of South Carolina, Audit Department, as an auditor.

**Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

**A.** I received a B. S. Degree in Business Administration, with a major in Accounting from Johnson C. Smith University in 1976. I was employed by this Commission in February 1979, and have participated in cases involving gas, electric, telephone, water and wastewater utilities.

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

**A.** The purpose of my testimony is to summarize the results of the Audit Staff's examination of South Carolina Electric & Gas Company's Fuel Adjustment Clause operation for the period March 2002 through April 2003. The findings

1 of the examination are contained in the Audit Department's section of the  
2 Commission Staff Report.

3 **Q. WHAT WAS THE SCOPE OF YOUR AUDIT?**

4 **A.** The Audit Department Staff traced the information as filed in the Company's  
5 required monthly filing, to the Company's books and records. The current  
6 examination covered the period March 2002 through April 2003. However,  
7 since this current hearing was scheduled for April 2003, Staff's audit work  
8 did not include any testing for the months of March and April 2003. The  
9 purpose of the audit was to determine if South Carolina Electric & Gas  
10 Company had computed and applied the monthly Fuel Adjustment Clause in  
11 accordance with the approved clause. To accomplish this, Staff examined  
12 the components surrounding the operation of the clause.

13 **Q. WHAT WERE THE STEPS THAT THE STAFF EMPLOYED WITHIN THE**  
14 **SCOPE OF THE AUDIT?**

15 **A.** The examination consisted of the following:

- 16 1. Analysis of Account # 151 – Fuel Stock
  - 17 2. Sample of Receipts to the Fuel Stock Account – Account # 151
  - 18 3. Verification of Charges to Nuclear Fuel Expense, Account # 518
  - 19 4. Verification of Purchased Power & Interchange
  - 20 5. Verification of KWH Sales
  - 21 6. Analysis of Spot Coal Purchasing Procedures
  - 22 7. Recomputation of Fuel Adjustment Factor and Verification of
  - 23 Deferred Fuel Costs
  - 24 8. Recomputation of True-up for the (Over)Under-Recovered Fuel
  - 25 Costs
  - 26 9. Details of Fuel Costs
- 27  
28

1 **Q. WITH REGARD TO THE TRUE-UP OF (OVER)UNDER-RECOVERED**  
2 **FUEL COSTS, WOULD YOU PLEASE ELABORATE ON STAFF'S**  
3 **COMPUTATION?**

4 **A.** Staff analyzed the cumulative under-recovery of fuel costs that the Company  
5 had incurred for the period March 2002 through February 2003 which totaled  
6 \$18,667,501 using the old base rate and \$16,421,821 using the new base  
7 rate. Staff added the projected under-recovery of \$1,719,860 for the month  
8 of March 2003 and the projected over-recovery of \$777,240 for April 2003 to  
9 arrive at a cumulative under-recovery of \$17,364,441. The Company's  
10 cumulative under-recovery as of April 2003, per its testimony in Docket No.  
11 2003-2-E, totals \$22,821,179. The difference between the Company's and  
12 the Staff's cumulative under-recovery balances as of actual February 2003  
13 and as of estimated April 2003 totals \$5,456,738. This difference is based on  
14 various corrections Staff reflected in various Company fuel costs, such as  
15 Fossil Fuel Burned Costs, Nuclear Fuel Costs and Purchase and  
16 Interchange Power Fuel Costs, for the months of the review period (per  
17 Staff's report). Staff's Exhibit G, Computation of Unbilled Revenue, which  
18 consists of five pages, provides detailed explanations for this cumulative  
19 under-recovery difference of \$5,456,738. As stated in South Carolina Electric  
20 & Gas Company's Adjustment for Fuel Costs, fuel costs will be included in  
21 base rates to the extent determined reasonable and proper by the  
22 Commission. Accordingly, the Commission should consider the under-  
23 recovery of \$ 17,364,441 along with the anticipated fuel costs for the period  
24 May 1, 2003 to April 30, 2004, for the purpose of determining the base cost  
25 of fuel in base rates effective May 1, 2003. This \$17,364,441 under-recovery  
26 figure was provided to the Commission's Utilities Department.

**Q. MRS. CHERRY, WOULD YOU PLEASE EXPLAIN THE ADJUSTMENTS  
ON STAFF AUDIT EXHIBIT G?**

(1) Staff's cumulative under-recovery balance brought forward from February 2002 of \$40,472,698 differs from the Company's beginning cumulative under-recovery balance (from February 2002) of \$41,287,451 by \$814,753. This cumulative difference was based on Staff's corrections to Fossil Fuel Burned Costs, Nuclear Fuel Costs and Purchased Power Costs for several months, as reflected in the last fuel review period. It should be noted that the Company, in its testimony, reflects this cumulative correction of \$814,753 in May 2002.

(2) Staff adjusted the Fossil Fuel Burned Costs for the months of March through May 2002, July 2002, August 2002, and November 2002.

(a) The Company, in December 2002 obtained Commission approval to remove the cost of fuel associated with the test power related to the Urquhart Combined Cycle re-powering project, which was completed in June 2002. The consumed fuel, mostly natural gas and some #2 oil, during the months of March through May 2002, which totaled \$12,536,042, was used to generate electricity for testing the new facilities. The Company made an adjustment in December 2002 for the three months. Staff adjusted each month, per a reduction in fossil fuel costs, for March through May 2002 for these costs---Gas costs of (\$450,796.70) in 3/02; Gas costs of \$(4,595,163.01) in 4/02; Gas and #2 Oil Costs of (\$7,490,082.15) (\$26,774.79 of #2 Oil and \$7,463,307.36 of Gas).

(b) In May 2002, a coal cost correction was corrected twice for \$826.67. Staff reduced fossil fuel costs by (\$826.67) to eliminate the duplicate correction.

1  
2 (c) In July 2002, there was a reduction revision to gas costs for the Urquhart  
3 Combined Turbine. Staff reflected the revised amount of \$6,592,772.53 in  
4 the actual month of July. The Company adjusted the revision in Jan. 2003.  
5

6 (d) In August 2002, the Company had true-ups for several gas burned costs,  
7 but the entire adjustment totaling (\$1,392.61) did not get included in the fuel  
8 clause figures. The Company included a "bottom-line" adjustment to the  
9 (over)/under-recovery monthly deferred fuel entry in Jan. 2003 for part of the  
10 true-up, along with some other Company true-ups. Staff reflected all of the  
11 true-up costs of (\$1,392.61) in the actual month of August.  
12

13 (e) In November 2002, the Williams Plant burned costs were revised by  
14 (\$338,601.48). The Company true-up this amount in its "bottom-line"  
15 adjustment to the (over)/under-recovery monthly deferred fuel entry in Jan.  
16 2003. Staff reflected this true-up in the actual month of November.  
17

18 (f) In November 2002, the coal costs for the SRS Plant were miscalculated  
19 by \$50.78. Staff made an adjustment for this amount.  
20

21 (3) Staff's Nuclear Fuel figure for April 2002 of \$1,296,020 differs from the  
22 Company's figure of \$1,295,168. This difference of \$852.17 was based on a  
23 revised waste disposal cost rate that did not get revised. Staff reflected the  
24 revision in April.  
25

26 (4) Staff's Purchase and Interchange Power Costs differ from the  
27 Company's for the months of March 2002 through February 2003.  
28

1 (a) In July 2002, Staff reflected a revised (based on updated kilowatt hours  
2 information) purchase and interchange fuel cost of \$9,218.73. The Company  
3 tried-up the revision in Jan. 2003.

4  
5 (b) In November 2002, as a result of the reduction adjustment for the  
6 Williams Plant fossil fuel burned costs (coal costs) of (\$338,601.48) and  
7 since the Williams Plant's fossil fuel costs are treated, in the fuel adjustment  
8 clause, as purchased power costs, Staff reduced the November Purchased  
9 Power Costs figures by (\$338,601.48).

10  
11 (c) For the months of the review period where Staff made adjustments to  
12 Fossil Fuel Burned Costs and Nuclear Costs, which were the months of  
13 March through May 2002, July 2002, August 2002 and November 2002, Staff  
14 had to recalculate the purchased power fuel cost rates that are used in  
15 computing the fuel costs associated with the KWH's in certain Company  
16 purchased power contracts. The Company's Fossil Fuel Burned Costs and  
17 Nuclear Costs are two of the fuel costs that are used in that computation.

18  
19 (d) For the review period, March 2002 through February 2003, Staff's  
20 Purchase and Interchange Power Costs reflects two types of Staff  
21 adjustments that differ from the Company by a total of (\$5,869,763). These  
22 two types of Staff adjustments concern the treatment of fuel costs  
23 components in purchase power transactions. In a continuing effort to identify  
24 the fuel portion of Purchased Power for recovery through the Fuel Clause,  
25 Staff has identified the fuel component contained on invoices from Duke  
26 Power Co. and Carolina Power & Light Co. For cost recovery purposes,  
27 Staff has allocated amounts so identified by the ratio of native load MWH  
28 purchases to total MWH purchases. For power marketers where the fuel  
29 component of purchases cannot be identified, Staff has utilized the lower of

1 total energy costs or the "avoided fuel cost" proxy, as computed by the  
2 Company, in determining amounts to be recovered. Staff has attempted to  
3 identify the fuel portion of avoided costs, once again, to continue in the effort  
4 to identify the fuel portion of purchased power costs. Staff's computation of  
5 costs to be included for recovery, in either instance, excludes Wheeling  
6 charges. These are charges incurred by SCE&G, in some cases, to make its  
7 own purchases of transmission pathways separate from its power  
8 purchases. The Company is billed separately for these charges, and is, in  
9 fact, booking these charges to Account #565, "Transmission of Electricity by  
10 Others", as a Transmission O&M Expense.

11  
12 Staff would note that these charges are not part of Account #555,  
13 "Purchased Power", as defined by the FERC Uniform System of Accounts as  
14 adopted by this Commission for Electric utilities. Staff has, therefore,  
15 excluded these amounts. Staff would also note that the other two (2) major  
16 electric utilities under the Commission's jurisdiction do not recover these  
17 costs through the Fuel Clause. For identifiable fuel costs, Staff adjusted the  
18 Company's purchase power figures by (\$5,012,249). For non-identifiable fuel  
19 costs, Staff adjusted the Company's purchase power figures by (\$857,514).  
20 Therefore, as mentioned previously, the total for these two types of Purchase  
21 Power Costs adjustments are (\$5,869,763).

22  
23  
24 **Q. MRS. CHERRY, WOULD YOU PLEASE DESCRIBE THE REMAINING**  
25 **STAFF EXHIBITS?**

26 **A.** Staff prepared exhibits from South Carolina Electric & Gas Company's books  
27 and records reflecting fuel costs during the review period.  
28 Specifically, these exhibits are as follows:

29 Exhibit A: Total Received & Weighted Average Cost



1 Exhibit B: Received Coal-Cost Per Ton (Per Plant)  
2 Exhibit C: Received Coal-Cost Per Ton Comparison  
3 Exhibit D: Burned Cost-Consumed Generation  
4 Exhibit E: Cost of Fuel  
5 Exhibit F: Factor Computation  
6 Exhibit G: Computation of Unbilled Revenue  
7

8 **Q. MRS. CHERRY, WHAT WERE THE RESULTS OF THE AUDIT**  
9 **DEPARTMENT'S REVIEW?**

10 **A.** Based on the Audit Staff's examination of South Carolina Electric & Gas  
11 Company's books and records, and the utilization of the fuel cost recovery  
12 mechanism as directed by the Commission, the Audit Department is of the  
13 opinion that the Company has complied with the directives (per the Fuel  
14 Adjustment Clause) of the Commission.

15 **Q. MRS. CHERRY, DOES THIS CONCLUDE YOUR TESTIMONY?**

16 **A.** Yes, it does.